

VZCZCXRO6789
PP RUEHDE
DE RUEHYN #2006/01 1931459
ZNY CCCCC ZZH
P 121459Z JUL 06
FM AMEMBASSY SANAA
TO RUEHC/SECSTATE WASHDC PRIORITY 4625
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 SANAA 002006

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E.O. 12958: DECL: 07/12/2016
TAGS: [PGOV](#) [PREL](#) [EFIN](#) [ECON](#) [EAID](#) [PINR](#) [KMCA](#) [KMPI](#) [YM](#)
SUBJECT: MAVERICK FINANCE MINISTER CHARGES AHEAD ON REFORM

REF: A. 2005 SANAA 328

[1](#)B. SANAA 647

Classified By: Classified by CDA Nabeel Khoury for reason 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: Yemen's new Minister of Finance, Dr. Seif al-Asali, may march to the beat of a different drummer, but he appears to be making progress on reform following years of corruption by his predecessor. Under Asali's leadership, the Ministry of Finance (MOF) is implementing the first phases of long-awaited reforms in public finance management (PFM). According to MOF officials, he is eliminating corrupt budgeting practices, decentralizing authority and taking on vested interests, including the Prime Minister. Asali's reform agenda is aggressive, and in pushing for a stock exchange perhaps too ambitious, but he is generating excitement within MOF and winning support from the donor community. END SUMMARY.

New MOF Backs Critical Reforms

[1](#)2. (U) After one year in development, MOF and donors (including Embassy Sanaa) signed a PFM work plan on May 13 designed to implement initial reforms in areas of public finance, including tendering, budget analysis and preparation, and installation of an automated budgeting system. According to the World Bank and the IMF, such reforms are an essential step towards increasing transparency, reducing corruption, and rationalizing the ROYG's management of limited resources. On July 9, MOF and the Embassy of the Netherlands hosted a workshop on the status of PFM reform in Yemen.

[1](#)3. (C) At the workshop, MOF Asali demonstrated marked differences from his predecessor, Alawi al-Salami, by adopting the PFM agenda as his own. Salami repeatedly obstructed PFM progress, charging that the donors were not offering serious financial support and that foreign experts were interfering in Yemen's sovereignty. (REF A) Salami appointed his own son-in-law, infamous for graft and delay, as head of the implementation unit for the Automated Financial Management and Information System (AFMIS). In contrast, Asali appointed new leadership for the PFM process and began trial implementation of AFMIS in four ministries within months of his appointment. In response, donors have pledged USD 3.6 million to support the action plan.

Free Money No Longer Available

[1](#)4. (C) There is genuine excitement among officials at MOF. After having been smothered for years under the previous minister, reformers are ascendant and they are enjoying the

fresh air. "You can't believe the difference," said MOF Office Manager Ibrahim al-Nahari. "This minister isn't afraid of anyone, and he stood up to the rest of the Cabinet immediately after taking office." Nahari cited MOF's decision to relinquish control over payroll and contracts in other ministries as proof of reform, and of Asali's determination to reduce corruption. "In the past," said Nahari in a July 5 meeting with Charge, "other ministers and powerful figures would come to our minister for money, and we would just give it to them outside the official budget. This is no longer the case." MOF has now adopted an approach of transferring budgetary allocations directly to ministries, and then auditing them throughout the year.

15. (C) Asali has also backed ROYG efforts to join the Extractive Industries Transparency Initiative (EITI), which would force the ROYG to declare annual oil revenues contributing an estimated 80 percent of the budget. (NOTE: Several sources indicate that Prime Minister Bajammal is blocking participation in EITI as inimical to his own interests, despite support from the Ministers of Oil, Planning, and Finance. END NOTE.)

MOF Savors Role Of Iconoclast...

15. (C) Asali is widely regarded as a maverick by those in the financial community, and was a surprise pick to head MOF in last February's Cabinet reshuffle. (REF B) A former consultant for the United Nations Development Program, Asali is friendly to the international community and to free market goals such as privatization of state-owned companies. Educated in South Carolina, he is an unabashed supporter of the United States and the war in Iraq, most recently

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advocating closer relations in a July 5 op-ed in the government-run al-Thawra newspaper (though he criticized U.S. support for Israel).

16. (C) Asali was once an active member of the Islamist Islah party, but joined the ruling GPC party in 2003 accusing his former colleagues of extremism and undemocratic beliefs. On several occasions, Asali's unorthodox approach has resulted in odd statements and priorities for MOF. At a recent conference on microfinance, for example, Asali argued publicly with the Minister of Planning that the poor should not be charged interest. In a Cabinet meeting, he reportedly lashed out at the Minister of Health, calling him a "bastard." He has also been a vocal advocate for the creation of a Yemeni stock exchange, a risky move for the country's unregulated markets, according to most financial experts.

...But Serious About Reform

17. (U) Close advisors to the Minister say that many of these statements are designed for public consumption, and that Asali is keenly aware of the limitations constraining his policy goals. On the specific issue of the stock exchange, Ministerial Advisor Helmi al-Kotabi said that Asali understands that basic guarantees of accounting standards, audits, and privatization plans must be put in place before opening for business. According to Kotabi, this could take several years, and he asked the USG for assistance. Econoff responded that the proposed reforms were in line with the broader objectives of the Millennium Challenge Account and WTO accession, and that the Minister should discuss them in detail in a future meeting with Ambassador.

18. COMMENT: Given that Asali was a surprise choice for MOF and does not have a large power base, it is far from certain that he will survive in his position beyond the September elections. Nevertheless, he has inspired many true believers

within the Ministry who believe that his commitment to the reform agenda will earn him a longer tenure. Unlike his predecessor, Asali is frequently seen cooperating in public with the Minister of Planning, and there are growing signs of a "reform caucus" developing within the Cabinet. The reforms supported by Asali are critical to MCC indicators for corruption, investing in people, and improving the overall investment climate. Limited resources have restricted Post's options for technical assistance to occasional interventions by the regional Treasury office and MEPI-funded procurement consultants. Recognizing the window of opportunity presented by the new minister, however, Post will continue to explore other funding options for technical assistance to help advance reforms. END COMMENT.
Khoury